
Federative Republic of Brazil

**Sustainable Atlantic Rainforest Development Project
(Parceiros da Mata)**

Negotiated financing agreement

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Negotiated financing agreement

Sustainable Atlantic Rainforest Development Project

(Parceiros da Mata)

(Negotiations concluded on 16 May 2024)

Loan No: _____

Project Name: Sustainable Atlantic Rainforest Development Project (*Parceiros da Mata*) (Projeto de Desenvolvimento Sustentável da Mata Atlântica da Bahia) ("the Project")

State of Bahia - Federative Republic of Brazil (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS, the Project shall be co-financed by the Inter-American Development Bank (the "IDB"). The Borrower and the IDB will enter into a financing agreement (the "IDB Loan Agreement") to provide one hundred million United States Dollars (USD 100 000 000) for the Project;

WHEREAS, the Fund and IDB will enter into a Coordination Agreement (the "Coordination Agreement") to establish the responsibilities of IDB as the administrator (the "Cooperating Institution") of the execution of the activities financed through the IFAD Loan;

WHEREAS, the Fund has agreed to provide financing for the Project;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.
3. The Fund shall provide a loan to the Borrower (the "Loan" or "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.
4. The Loan is to be guaranteed by the Federative Republic of Brazil (the "Guarantor") on the terms and conditions set forth in an agreement, of even date, to be entered into by the Fund and the Federative Republic of Brazil (the "Guarantee Agreement").

Section B

1. The amount of the Loan is eighteen million United States dollars (USD 18 000 000)
2. The Loan is granted on ordinary terms and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.
3. The Loan Service Payment Currency shall be in United States dollars (USD).
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 15 February and 15 August.
6. There shall be a Designated Account opened by and held in the name of the Borrower in USD, for the exclusive use of the Project. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. There shall be a Project Account in Brazilian Real (BRL) for the benefit of the Government of the State of Bahia in a bank selected by the Borrower.
8. The Borrower shall provide counterpart financing for the Project in the amount of thirty-two million United States dollars (USD 32 000 000), which shall also include the payment of taxes and duties, and of which four million nine hundred thousand United States dollars (USD 4 900 000) is considered as counterpart funding towards the IFAD Loan.

Section C

1. The Lead Project Agency shall be the Rural Development Secretariat (SDR) acting through the Regional Development Agency (CAR) or its successor with the same attributions and legal competencies, subject to prior approval by the Fund for the purposes of the Project.
2. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.

Section D

1. The Loan shall be administered by the Fund.
2. The Project shall be supervised by the IDB as the Cooperating Institution.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

- (a) The Project Implementation Manual (PIM), or Regulamento Operacional do Projeto (ROP) in IDB terminology, and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.
2. The following are designated as additional conditions precedent to withdrawal:
- (a) The Guarantee Agreement shall have been duly signed, and the signature thereof by the Guarantor shall have been duly authorised by all necessary administrative and governmental authorities;
- (b) The approval of the PIM/ROP shall have been confirmed in writing by IDB;
- (c) The Project Designated Account and the operational accounts shall have been opened;
- (d) The Project Management Unit (PMU) shall have been established within the CAR and the following members appointed: (i) project coordinator; (ii) a financial specialist; and (iii) a procurement specialist.
- (e) A subsidiary execution agreement between the SDR of the State of Bahia and CAR shall have been signed.
- (f) The IDB Loan Agreement shall have entered into full force and effect.
- (g) The right of the Borrower to withdraw the proceeds of the IDB Loan Agreement has not been suspended, cancelled or terminated, in whole or in part, or the IDB Loan has become due and payable prior to the agreed maturity thereof provided that the Parties could not have reached an agreement on a mutual solution.
3. The following provisions of the General Conditions shall be interpreted to read as follows:
- 3.1 Section 7.05 of the General Conditions: Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the IDB Policy for the Procurement of Goods and Works Financed by the IDB (GN-2349-15) and the Policy for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15) as referred in the Coordination Agreement between IDB and IFAD.
- 3.2 Section 7.06 of the General Conditions: The Environmental and Social Policy Framework (ESPF) and the Access to Information Policy (OP-102) of IDB, as amended from time to time, shall apply to this Agreement.
- 3.3 Section 5.02 c), d), and e) of the General Conditions shall not apply to this Agreement.
- 3.4. Section 4.07 of the General Conditions shall be interpreted as per Section 2 (b) on Retroactive Financing provided in Annex 2 hereto.
4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Estado da Bahia
3a Avenida, Centro Administrativo da Bahia 390
Centro Administrativo da Bahia
Salvador Bahia CEP.: 41.745-005
email: governador@governadoria.ba.gov.br

Copy to:

Secretaria do Planejamento - 2a Avenida, Centro Administrativo da Bahia 250
Centro Administrativo da Bahia
Salvador Bahia CEP.: 41.745-003
email: gasec.seplan@seplan.ba.gov.br

Secretaria da Fazenda 2a Avenida, Centro Administrativo da Bahia 260
Centro Administrativo da Bahia
Salvador Bahia CEP.: 41.745-003
email: apoioGasecsefaz@sefaz.ba.gov.br

For the Lead Project Agency:

Secretaria de Desenvolvimento Rural - SDR
2a Avenida, Centro Administrativo da Bahia 250
Conjunto Seplan
Centro Administrativo da Bahia
Salvador Bahia CEP.: 41.745-001
email: presidencia@car.ba.gov.br, gabinete@sdr.ba.gov.br

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

5. The Parties commit to share with the Secretaria de Assuntos Internacionais e Desenvolvimento do Ministério do Planejamento e Orçamento – SEAID copies of all communication related to this Agreement.

The Parties accept the validity of any qualified electronic signature used for the signature of this Agreement and recognise the latter as equivalent to a hand-written signature.

THE STATE OF BAHIA

"[Authorised Representative Name]"
"[Authorised Representative title]"

Date: _____

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Alvaro Lario
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project will target smallholder families in poverty and extreme poverty. The Project will directly reach approximately 88,000 families (about 352,000 people) in rural communities, prioritized at municipality level for their low Human Development Index (HDI), poor water and sanitation services, limitations in agricultural productivity, poor access to technical assistance services and the presence of environmental degradation processes. 50% of beneficiary families will be women-led, 30% youth-led, and at least 5% of families will be from traditional communities. To be aligned with the IFAD portfolio in Brazil and IDB requirements, the Project will target families in groups and communities.

2. *Project area.* The Project area will cover 77 municipalities in four territories in the Atlantic Rainforest of Bahia State: Baixo Sul, Litoral Sul, Médio Rio das Contas, and Vale do Jiquiriçá (the "Project Area"). Its total area is 42,695 km², and its population is 1.8 million, of which 30% are rural. Beneficiary communities will be selected based on technical indicators to be included in the Project Implementation Manual (PIM), such as high levels of poverty and vulnerability to climate change, food and nutrition insecurity, and a low HDI.

3. *Goal.* The Project's general objectives are to improve income, nutrition and food security, access to basic services and adaptation to climate change of the poor rural population and protect the region's natural resource base.

4. *Objectives.* The specific objectives are: (i) increase the adoption of agricultural technologies, with emphasis on technologies for adaptation to climate change, prioritizing women, youth, *Povos Originários* and Traditional Peoples and Communities (PCT); (ii) improve the integration of producers into value chains, prioritizing women, youth and PCT; (iii) improve environmental conditions for rural families and their surroundings; and (iv) improve access to drinking water and sewage treatment in rural communities.

5. *Components.* The Project shall consist of the following Components:

5.1 Component 1. Resilient production systems, environmental recovery and capacity building

5.1.1 The component will finance plans to improve production and marketing, recover degraded areas, strengthen the capacities of families and their organizations, and provide technical assistance (TA). It will include: 1) Community Sustainable Development Plans (PCDSs) for groups of contiguous rural communities, focusing on women, young people, *Povos Originários* and traditional peoples and communities and based on a participatory diagnosis. Each PCDS will include a Productive Development Plan (PDP) to finance inputs, tools and equipment to enable the adoption of technologies for improved food security and sustainable production, contributing to reducing deforestation and adapting to climate change, and a Socio-Cultural Strengthening Plan (SCSP) that will finance training and equipment to strengthen the capacities of women, youth and community organizations, and to foster the inclusion of priority groups in Project activities, such as organizations led by women, youth, traditional communities and individuals from the LGBTQIAPN+ community. Activities from this component will include Payment for Environmental Services (PES) initiatives, as well as land and environmental regularization.; 2) Business Plans (BP) for cooperatives and other economic organizations, to add value to products and improve marketing, by financing investments and specialized technical assistance.

5.2 Component 2. Water security and rural sanitation

5.2.1 It will finance small-scale works in rural communities, which will be identified during the elaboration of the PCDSs, and will include: (i) structures to improve access to drinking water, such as family cisterns for rainwater and community networks with metered household connections; (ii) sewage systems for treating effluent and grey water, as well as household sanitation modules that include toilets and tanks for washing clothes. The types of water and sanitation works will depend on population density, physical, environmental and climatic characteristics, and local cultural factors, particularly in traditional communities. They will consider people with special needs due to disabilities. Similarly, training will be given to communities, and a multi-community water management system will be put in place (supported through component 3). The component will also provide technical support and equipment for the design and implementation of rural solid waste management pilots, based on the classification and proper treatment of waste, in coordination with municipal governments and community organizations such as sorting cooperatives and multi-community organisations.

5.3 *Component 3. Institutional strengthening and knowledge management*

5.3.1 It will strengthen the rural development institutions of the Borrower, the contracted technical assistance providers, and the beneficiaries' organizations. Capacity building plans may include training, improvements to information systems, equipment and vehicles. This component will also provide support the establishment of multi-community water management system (to ensure sustainability of interventions under component 2). The Component will also support knowledge management (KM) and South-South and Triangular Cooperation (SSTC), including learning routes and a rural youth program. It will also include monitoring and evaluation (M&E) activities to support the project's result-based management.

II. Implementation Arrangements

6. *Lead Project Agency.* The Lead Project Agency shall be the Rural Development Secretariat (SDR) acting through the Regional Development Agency (CAR).

7. *Project Steering Committee.* The Project will have a Management Committee (CGT), whose function will be carried out by the CAR Board of Directors, which will have a strategic planning function, including, among other things, reviewing the annual reports and approving the Annual Work Plans and Budgets (AWPBs). In addition, the Sustainable Territorial Development Committees (CODETER) in the Project Area, organizations for local participation and coordination of government actions, and civil society organizations will have a consultive role over the plans financed by component I.

8. *Project Management Unit (PMU).* The Lead Project Agency, through the PMU, will be responsible for the overall management and coordination of the Project, and will ensure compliance with this Agreement and the PIM. Among other attributions, it will be responsible for: (i) maintaining formal communication with the IDB; (ii) submit justification of expenditure (iii) manage the external audit; (iv) coordinate M&E activities; (v) submit to the IDB the consolidated AWPB, Financial Plan, Multiannual Execution Plan and progress reports; and (vi) coordinate with partners the execution of activities, monitor the execution of the budget and obtain the necessary inputs for the financial records and the due financial reporting to the IDB. The PMU will have the following key staff: (i) Project coordinator; (ii) a financial specialist; (iii) a procurement specialist; (iv) an environmental safeguards specialist; (v) a social safeguards specialist; and (vi) a monitoring and evaluation specialist.

9. *Financial Management.* The Finance Team within the PMU will be responsible for, maintaining project accounts, maintaining adequate internal controls, monitoring budget execution and timely submission of withdrawal applications and justifications of expenditure. The PMU will ensure financial reporting will be generated through an automated system to be operational before the start of Project.

IFAD accepts the IDB formats and procedures for presenting justifications of expenditure and request for disbursements of advances. The PMU will submit withdrawal applications (justifications of expenditure and request for of advances) to the IDB for review and in parallel to IFAD through the IFAD Client Portal (ICP).

10. *Monitoring and Evaluation (M&E)*. The Project will also fund equipment and consultancy needed for administration and management, M&E, knowledge management and auditing.

11. *Knowledge Management (KM) and South-South and Triangular Cooperation (SSTC)*. The Project will produce Knowledge Management materials to enhance the effectiveness of Project activities.

12. *Project Implementation Manual (PIM)*. Project implementation will be in accordance with this Agreement and the PIM or ROP. In case of discrepancy between this Agreement and the PIM, the Agreement will prevail. Any change or modification in the PIM will require prior no objection from the IDB and shall be communicated to IFAD. The PIM will include operational details regarding the IDB and IFAD financing and supervision arrangements.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the components to be financed by the Loan and the allocation of the amounts to each component of the Financing and the percentages of expenditures for items to be financed in each component:

Component	IFAD Loan Amount Allocated (Expressed in USD)	Percentage
1. Resilient production systems, environmental recovery and capacity building	10 100 000	100% net of taxes
2. Water security and rural sanitation	4 400 000	100% net of taxes
3. Institutional strengthening and knowledge management	1 700 000	100% net of taxes
Project Management	1 800 000	100% net of taxes
TOTAL	18 000 000	

(b) The terms used in the Table above are defined as follows:

- (i) "Resilient production systems, environmental recovery and capacity building": Eligible Expenditures under Component 1 including small works, consultancies, studies, technical assistance, workshops, training, goods, services, equipment, and materials.
- (ii) "Water security and rural sanitation": Eligible Expenditures under Component 2, including grants and subsidies for productive investments, small works, consultancies, studies, technical assistance, workshops, training, goods, services, equipment and materials;
- (iii) "Institutional strengthening and knowledge management": Eligible Expenditures under Component 3, including small works, consultancies, studies, technical assistance, workshops, training, goods, services, equipment and materials.
- (iv) "Project management": Eligible Expenditures for the operation of the PMU and monitoring and evaluation of the Project including salaries and allowances, consultancies, external audits, studies, workshops, training, goods, services, equipment, and materials.

2. Disbursement arrangements

- (a) *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs (in Component 3 and Project management) incurred before the satisfaction of the General Conditions precedent to withdrawal shall not exceed an aggregate amount of USD 200,000. Activities to be financed by Start-up Costs will require the no-objection from IFAD to be considered eligible.

- (b) *Retroactive financing.* As an exception to section 4.07(a) (ii) of the General Conditions, specific eligible expenditures incurred as of 2 January 2024 until the date of entry into force of this Agreement shall be considered eligible up to an amount equivalent to seven hundred thousand US dollars (USD 700 000) for activities relating to: consulting services for studies and diagnostics and salaries and benefits of PMU staff and necessary operating costs, including purchase of IT equipment. Activities to be financed by retroactive financing and their respective components will require prior no-objection from IFAD to be considered eligible. Pre-financed eligible expenditures shall be reimbursed to the Borrower once additional conditions precedent to the first disbursement of funds specified in Section E.2 are fulfilled.

Schedule 3

Special Covenants

1. Prior to the start of the execution of the works of the collective systems in the rural area within the framework of Component 3 of the Project: (i) the Borrower and each municipality that will own a water management and sanitation centre shall sign a legal instrument which shall enter into force in order to formalize the rights and obligations of the Borrower to carry out water and basic sanitation works in the municipal jurisdiction; and (ii) each respective municipality and water management and sanitation centre shall sign a cooperation agreement which shall enter into force to formalize the obligations related to the operation and maintenance of the collective water and sanitation system.

Negotiated financing agreement

Sustainable Atlantic Rainforest Development Project (Parceiros da Mata)

(Negotiations concluded on 16 May 2024)

GUARANTEE AGREEMENT

This GUARANTEE AGREEMENT is signed on _____, 2024 between the FEDERATIVE REPUBLIC OF BRAZIL (hereinafter referred to as "Guarantor") and the INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (hereinafter referred to as "IFAD" or "the Fund" and together the "Parties").

WHEREAS:

Through Financing Agreement No. _____ (hereinafter referred to as "Financing Agreement"), entered into on this same date, between IFAD and the State of Bahia (hereinafter referred to as "Borrower"), IFAD has agreed to provide the Borrower with Financing of a Loan of eighteen million United States dollars (USD 18 000 000), provided that the Guarantor guarantees the Borrower's financial obligations for the Loan and remains fully bound until full payment of such obligations stipulated in the referred Financing Agreement and that the said Guarantor contracts the additional obligations specified in this Agreement.

The Guarantor, given the fact that IFAD signed the Financing Agreement with the Borrower, agreed to guarantee unconditionally and irrevocably the due and timely payment of the principal, interest and other charges of the Loan, in accordance with the provisions of this Agreement.

THE PARTIES agree the following:

1. The following documents collectively constitute an integral part of this Agreement: this Agreement, the Financing Agreement, and the Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as amended in December 2022 (the "General Conditions"). Unless the context otherwise requires, the several terms defined in the General Conditions and the Financing Agreement have the respective meanings therein set forth.
2. The Guarantor hereby unconditionally and irrevocably guarantees, as primary obligor and not as surety merely, the due and timely payment of the principal of, and the payment of interest and other charges on the Loan due under the Financing Agreement whose terms the Guarantor declares to be fully aware of. These financial obligations do not include the commitment by the Borrower to provide additional resources to the execution of the Project.
3. The Guarantor undertakes not to take any action or allow, within the scope of its competence, measures to be taken that hinder or prevent the execution of the Project or obstruct the fulfillment of any obligation of the Borrower established in the Financing Agreement.

4. In cases of amendments to the Financing Agreement, the Borrower must obtain the prior approval of the Guarantor to any modifications or amendments to the Financing Agreement.
5. The Guarantor undertakes to:
 - (a) cooperate, within the scope of its competence, to ensure the fulfillment of the objectives of the Financing;
 - (b) inform IFAD, as urgently as possible, of any fact that makes it difficult or may make it difficult to achieve the objectives of the Financing, or the fulfillment of the Borrower's obligations;
 - (c) within its competence, provide IFAD with the information it reasonably requests regarding the Borrower's situation;
 - (d) facilitate IFAD's representatives, within the scope of its competence, in the exercise of their functions related to the Financing Agreement and the execution of the Project; and
 - (e) inform IFAD, as urgently as possible, if it is, in compliance with its obligations as a joint debtor, making payments corresponding to the Loan.
6. The Guarantor agrees that both the principal and interests, and other charges on the Loan will be paid without any reduction or restriction, free of any taxes, fees, duties or charges set forth in the laws of the Federative Republic of Brazil, and that both this Agreement and the Financing Agreement will be exempt from any applicable tax, fee or duty in connection with the execution, registration and execution of contracts.
7. The Guarantor will not be released from any liability with IFAD until the Borrower has fully complied with all the financial obligations assumed in the Financing Agreement. In the event of any default by the Borrower, the Guarantor's obligation will neither be subject to any notification or challenge, nor to any procedural formality, demand or prior action against the Borrower or against the Guarantor itself. In the event of default by the Borrower, the Fund shall not be required to exhaust its remedies against the Borrower prior to enforcing its rights against the Guarantor. The Guarantor also expressly waives any rights, order or excussion benefits, faculties, favors or resources that assist, or may assist the Guarantor. The Guarantor declares itself aware that it will not release any of its liability to IFAD if there is: (a) an omission or abstention by IFAD in the exercise of any rights, powers or remedies that has against the Borrower; (b) IFAD's tolerance or agreement with the Borrower's default or delays that he may incur in fulfilling its obligations; (c) deadlines, extensions or any other concessions made by IFAD to the Borrower, provided that it has the prior consent of the Guarantor; (d) alteration, amendment or revocation, in whole or in part, of any of the provisions of the Financing Agreement, provided that they are made with the prior consent of the Guarantor.
8. IFAD's delay or abstention in the exercise of the rights agreed in this Agreement cannot be interpreted as a waiver of such rights, nor as an acceptance of the circumstances that would allow it to exercise them.
9. Any dispute that arises between the Parties regarding the interpretation or application of this Agreement, which cannot be resolved by mutual agreement, will be subject to arbitration, as established in Section 14.04 of the General Conditions. For the purposes of this arbitration, all references made to the Borrower in the aforementioned Section apply to the Guarantor.

10. Unless a written agreement stipulates another procedure, all notices, requests or communications that the contracting Parties must send to each other under this Agreement must be made, without exception, in writing and will be considered effective upon their delivery to the addressee, by any usual means of communication, at the address indicated below:

For IFAD:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy
Email: ifad@ifad.org

For the Guarantor:

Ministério da Fazenda
Procuradoria-Geral da Fazenda Nacional
Esplanada dos Ministérios, Bloco P, 8º Andar
CEP: 70.048-900 Brasília, DF
Brasil
Email: apoioconf.df.pgfn@pgfn.gov.br

Copy to:

Ministério da Fazenda
Secretaria do Tesouro Nacional
Coordenação-Geral de Controle da Dívida Pública
Esplanada dos Ministérios, Bloco P, Ed. Anexo, Ala A, 1º andar,
sala 121
CEP 70048-900
Brasília – DF – Brasil
Email: gecod.codiv.df.stn@tesouro.gov.br;
codiv.df.stn@tesouro.gov.br

The Parties accept the validity of any qualified electronic signature used for the signature of this Agreement and recognise the latter as equivalent to a hand-written signature.

FEDERATIVE REPUBLIC OF BRAZIL

INTERNATIONAL FUND FOR AGRICULTURAL
DEVELOPMENT (IFAD)

[Name]
[Position]

Alvaro Lario
President

Date: _____

Date: _____